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SIPDIS

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SUBJECT: THE SANADER GOVERNMENT'S FIRST SEMESTER -- OFF TO A RUNNING START

REF: A. ZAGREB 597

[1](#)B. ZAGREB 627

Classified By: Ambassador Ralph Frank for reasons 1.4 (b,d)

Summary and Introduction

[1](#)1. (C) PM Ivo Sanader's furious, almost frantic, pace for his first 100 days in office has produced positive results. Most of his government's energy has been focused on foreign policy, where Sanader and his closest associates had to work quickly to convince the skeptics of the "new HDZ" who are making key decisions about Croatia's progress toward integration in the EU and NATO. While ICTY fugitive Ante Gotovina remains a key obstacle, the clear highlight of Sanader's first "semester" is Croatia's dramatic turnaround in cooperation with The Hague war crimes tribunal. This achievement, together with his ability to engage with Croatia's Serb minority, was enough to win a positive "avis" on April 21 from the EC on Croatia's pending application to be accepted as a candidate for membership.

[1](#)2. (C) We share the opinion of most of Sanader's domestic critics that he has spent too little time on the economy. We welcomed his decision to continue Croatia's relationship with the IMF, but in order to get an agreement with the Fund, Sanader may have to renege on some of the promises he made to key constituencies, especially to retirees and veterans. There have been bumps in the road for Sanader, but none have caused his government to lose momentum, a frequent, frustrating occurrence during the Racan government's tenure.

[1](#)3. (C) Sanader's government has done well on issues relating to the USG's broad goals in the region, like addressing "war legacy" issues, progress toward NATO membership and developing better relations with neighbors. But on strictly bilateral issues, Sanader's record has been mixed. While we welcomed the government's move to ratify a long-overdue economic agreement, its weak position in parliament and pressure from the EU has forced it to back away from pledges to send Croatian troops to Iraq and to sign an Article 98 agreement. Nevertheless, we find the new GoC's can-do attitude and its readiness to engage with us on almost every issue a refreshing -- and surprising -- change. End Summary and Introduction.

No Time to Lose ...

[1](#)4. (C) Ivo Sanader's HDZ government took office in late December 2003 with a lot to prove and little time to prove it. With Croatia's application for EU candidate status up for review just four months after coming to office, Sanader had to prove to skeptics -- both in EU Capitals and in Washington -- that his HDZ is not the corrupt, opaque party which gave former President Tudjman the domestic political tools to wage ethnic war and run Croatia's economy into the ground.

[1](#)5. (C) Showing a great deal of political savvy and a measure of political courage as well, Sanader rejected an offer of coalition with Croatia's far-right party and worked out a deal with the ethnic Serb party in parliament. The Serbs drove a hard bargain, insisting on concrete steps on minority issues and setting ambitious benchmarks for the government to meet on refugee property restitution. So far, they are pleased with Sanader's public call for refugees to return to Croatia and his government's allocation of budget funds to repair Serb houses damaged during the war. For Sanader, the grumbling from a few nationalist members of his party was more than offset by the instant credibility he got from skeptics on both sides of the Atlantic of his party's sincerity to resolve refugee issues.

... But Little Time to Get Organized

[1](#)6. (C) Once in office, Sanader took little time to get his government organized before launching his full-court press for status as an EU candidate. Four months after coming to power, some lines of responsibility are still not clear. In

the first two months of his tenure, Sanader was forced to withdraw a number of sub-ministerial appointments which were clearly not properly vetted, much to his embarrassment. In a clear effort to avoid the "revanchist" label, the Sanader government left most mid-level bureaucrats in place. But on almost every important issue, regardless of complexity, Sanader and a very small group of close advisers still exclude many of the government's professional civil servants from the policy-making process. This has led to some stagnation on less-urgent matters and some uninformed decisions on others. Particularly on economic issues, Croatia suffers from a lack of talented people willing to

leave the private sector for government.

#### Progress on ICTY Cooperation

17. (C) The area where the Sanader government has clearly made the most dramatic turnaround is in cooperation with the ICTY. Despite its purported best intentions, the Racan government's track record on this issue was poor. With his wobbly coalition indecisive at the best of times, Racan was fearful of reprisal from the right-wing, both in and out of his government. Sanader has no such limitations and in a short time has established a clear track record. His government has engineered the transfer of eight indictees to ICTY custody and has fulfilled all court document requests.

18. (C) The best measure of Croatia's cooperation with ICTY will be the transfer of fugitive indictee Ante Gotovina. But the Sanader government has taken some real steps on this issue as well (ref a), and convinced the ICTY Chief Prosecutor to deliver a favorable report on GoC cooperation to the European Commission in advance of its decision on the "avis."

#### "NATO or Bust" -- Real Movement on Defense Reform

19. (C) Sanader's drive for EU candidate status has not distracted his government from adding more horsepower to Croatia's NATO bid. Defense Minister Roncevic has announced steps to eliminate a large and costly "standing reserve" of sub-standard soldiers (all of whom are veterans of Croatia's war of independence). He has also launched a new Strategic Defense Review (in consultation with NATO's International Staff) and has given instructions to the drafters of the Review that Croatia's force must be structured not to provide for territorial defense, but for making contributions to joint peace support operations. Responding to proposals from the USG and others in the region, the MOD has gone further, and has proposed to transform its Navy and Air Force, retaining only a minimum fighter force for air policing and pooling assets with the Interior and Transport Ministries to form a coast guard capable of interdicting illicit trafficking of all sorts along Croatia's long and vulnerable coastline.

110. (C) While the Racan government made a good start on defense reforms, it could not afford to appear "soft on defense" to domestic critics on the right, and therefore lacked the political will to make these fundamental changes to Croatia's force structure. Sanader's HDZ government does not have this political Achilles' heel, and reform is surging ahead.

#### Moving Forward on Everything ...

111. (C) Justice Minister Vesna Skare Ozbolt has injected energy and commitment to the tough task of judicial reform. She introduced changes to the penal code to criminalize trafficking in persons, institutionalized and depoliticized Croatia's cooperation with the ICTY and has begun to tackle the Herculean task of reforming Croatia's broken-down judiciary. Skare Ozbolt has also engaged with us to develop Croatia's domestic capability to prosecute war crimes. When Sanader consolidated three ministries into Bozidar Kalmeta's Ministry of the Sea, Tourism, Transport and Development, we feared that the energetic former mayor was being set up for a fall, but he appears up to the task. Highway construction and other infrastructure projects are moving forward at a remarkable rate and the government is finally following through on commitments to build homes for returning dispossessed Serb refugees.

#### ... Except for the Economy

112. (C) By most measures, Croatia's economy had "turned the corner" during the Racan government's tenure. Growth was strong, unemployment was beginning to drop, but there were lurking weaknesses which had been masked by stronger-than-expected performance of the tourism industry.

Although the markets remain unfazed, Croatia's current account deficit and ballooning debt (both public and private) set off warning bells for many economic observers. Although the previous government never needed to draw on Stand-by facilities agreed with the IMF, the GoC benefited from the IMF's role as an outside auditor and an external discipline on the economy. Sanader's decision to renew Croatia's relationship with the Fund was useful, but the belt-tightening the IMF will likely request may mean that he will need to renege on some of his more populist campaign promises. (See ref b for more detail.)

#### Relations in the Region

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13. (C) There were a few observers who thought that the return of the HDZ to power in Croatia would slow the steady progress toward building good-neighborly relations in the region. Sanader's activist foreign policy has put most of those fears to rest. He has kept his distance from the HDZ in BiH, as requested by High Representative Ashdown, and expressed support for the BiH central government. He has sought to address irritants in Croatia's bilateral relationship with Slovenia. Croatia ratified the succession agreement on assets belonging to the former Yugoslavia and extended a visa-free regime for residents of Serbia and Montenegro.

#### Good Bilateral Vibrations ...

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14. (C) During his election campaign, Sanader pledged to improve relations with the U.S. to "balance" Croatia's foreign policy and make it less Euro-centric. Atmospherics have certainly changed -- we have immediate access to the top levels of the GoC whenever we need it. Beyond atmospherics, Sanader pushed a long-languishing bilateral agreement on Intellectual Property Rights through the parliament, despite pressure from Croatian pharmaceutical producers. In addition to its military police contribution to ISAF, Croatia is preparing to make a civilian contribution to a Germany-led Provincial Reconstruction Team in Afghanistan. At the UN Commission on Human Rights, Croatia co-sponsored a resolution on the Human Rights Situation in Cuba, the first time Croatia has ever co-sponsored a country resolution. Croatia is an eager supporter of the Proliferation Security Initiative (PSI) and looks to engage more closely on cooperative security. The GoC is also lobbying hard (maybe too hard) to improve its standing in Washington, particularly in Congress.

#### ... But "No" on Article 98 and Troops to Iraq

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15. (C) During the election campaign, Sanader made clear his party's policy to support an Article 98 agreement and to send a Croatian contingent of troops to support operations in Iraq. But the post-election political reality is that he is unable to make this policy a reality. Since his HDZ party does not even have a simple majority in parliament (let alone the two-thirds majority required to deploy troops abroad), Sanader chose not to propose an Iraq deployment to the parliament. However, his government is trying to formulate a contribution which shows commitment to U.S. goals but does not require legislature approval. The GoC decision not to sign an Article 98 Agreement was a clear response to EU pressure. With Croatia's application for candidate status still pending and the EU pushing hard for Croatia not to sign, FM Zuzul announced that the GoC would not engage in negotiations on an Article 98 agreement.

#### Outlook Good for Long-Term Regional Goals

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16. (C) While we are disappointed that the new GoC was unable to meet commitments on some of our near-term goals, our long-term agenda has taken steps forward since the Sanader government took office. First, we think it is realistic to hope that Croatia's marked improvement in cooperation with The Hague might bring other states in the region around. (We understand Ambassador Bond cited Croatia's transfer of indictees to ICTY when urging BiH government officials to improve their record of cooperation with the Tribunal. According to press reports, Serbia and Montenegro cabinet member said that the new "Croatian Model" of cooperation has put "even more pressure" on the GoSaM.) Second, and perhaps most importantly, with the EU's positive "avis," Croatia's neighbors to the south and east can take heart that reforms can pay off. Third, since progress in integration requires good-neighborly relations, we can expect that the long process of EU and NATO scrutiny will keep Croatia's bilateral relations in the region on a positive, constructive track.

FRANK

